



# The Schwab Self-Directed Brokerage Account Indicators™

An industry-leading benchmark on retirement plan participant investment activity within self-directed brokerage accounts.

All Participants  
Quarter Ending 3/31/2019

# The Schwab Self-Directed Brokerage Account Indicators<sup>TM</sup>

## Key Schwab Observations for the First Quarter 2019:

### Asset Balance Summary

U.S. stock markets have bounced back from the sharp losses seen at the end of 2018. However, the risk of a U.S. and/or global recession remains relatively high. This doesn't necessarily mean a recession will occur in 2019, but it's a possibility within in the next six to 18 months. The outcome of ongoing global trade talks may hold a key to the length of time before the next recession.

The U.S. economy remains generally solid, but the effects of tax cuts are fading, and earnings growth is expected to slow. Interest rate concerns have eased since the Federal Reserve officials have recently suggested they don't plan to raise rates again anytime soon, also around the world, policymakers are exploring ways to increase economic growth in their countries, including tax cuts.

As a result, the average account balance for all participants in the Schwab Personal Choice Retirement Account® (PCRA) was up by .91% to \$267,609 from \$265,195 a year ago and also up by 8.72% from \$246,153 last quarter. Trading volumes were slightly down from last quarter at an average of 6.5 trades per account. Participants made the most trades in their equities holdings, followed by mutual funds and ETFs.

On average, participants held 9.8 positions in their PCRA, very similar to last year and the same as last quarter. Participants aged 55 and over (part of the Baby Boomer generation) were at 39.7%, while the Gen X (age 39-54) participants were slightly higher for the first time with 41.2% and Millennials (age 27-38) at 12.2 %.

### Investing Behavior and General Investing Characteristics

#### **Asset Allocation**

There was a major change in the Global Industry Classification Standard (GICS) structure in 2018. The Telecommunication Services Sector was renamed to Communication Services and expanded to include companies from Consumer Discretionary and Information Technology sectors. The new sector includes companies from media, advertising, broadcasting, cable & satellite, movie & entertainment, publishing, internet software & services, interactive home entertainment, and interactive media & services. The new Communication Services sector will represent roughly 10% of the S&P 500® Index market cap.

Mutual Funds held the majority of participant assets and were largely unchanged from last year at 37.3%. That included a 19.09% allocation for OneSource Mutual Funds and an 18.24% allocation for transaction fee and other Mutual Funds. Equities were the second largest holding at 29.12%, with ETFs coming in at 17.24%, Cash & Equivalents at 13.06% and Fixed Income at 3.26%. Overall, participant holdings increased from last quarter, due to the large upturn in the market for Q1 2019.

#### **Mutual Funds**

Large Cap Stock Funds had the largest allocation at 28.93%, very similar to last year. They were followed by Taxable Bond Funds at 19.92% and International funds at 16.3%. Overall, the market value allocation was very similar to last year.

#### **Equities**

The largest equity sector holding was Information Technology at 24.5% , which was very close to last quarter. Apple stock, which is part of the Information Technology sector and the largest individual stock holding in PCRA at 9.05%, experienced a 20.74% increase in the first quarter and as a result, participant account balances increased as well. Other equity holdings remained similar to last quarter and to a year ago. Consumer Discretionary was at 14.9% and Health Care was third at 11.05%, followed by Financials (10.9%). The new Communication Services sector was fifth at 10.5%.

#### **Exchange-Traded Funds (ETFs)**

U.S. Equity ETFs, comprised of Large Caps, the most popular segment, Mid Caps and Small Caps, continued to be the top ETF holding in participant accounts and was very similar to last year at 48%, followed by International Equity ETFs at 16.4%, U.S. Fixed Income at 14.5% and Sector ETFs at 11.21%.

#### **Asset Flows**

The largest asset net flow class was again Fixed Income, followed by ETFs, Mutual Funds (OneSource) and Equities.

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## Key Schwab Observations for the First Quarter 2019 (continued):

### Investing Behavior Across Generations: Millennials, Gen X and Baby Boomers

As expected, the older generation ended the quarter with the largest balance (\$374,622), which was up from \$342,810 last quarter. They were followed by Gen X (\$202,481) and finally Millennials (\$65,928).

All three generations had very similar equity holdings, with Apple, Amazon, Berkshire Hathaway, Microsoft, Netflix and Facebook coming in at the top.

As for the top ETF holdings, they were very similar across generations: Schwab US Broad Market ETF, SPDR S&P500 ETF, Vanguard and Schwab International Equity were at the top for all.

All continued to hold Schwab S&P 500 Index as their top Mutual Fund holding, followed by Schwab Total Stock Market Index.

Millennials and Gen X again had the same percentage of mobile trades at 21%, and Baby Boomers came in slightly lower than last quarter at 14%. Millennials once again had the highest percentage in cash out of the three generations- 16.7%, which was lower than last quarter's 18%. The cash holdings for Gen X and Baby Boomers also decreased to 13.33% and 12.35% from 14.8% and 14.2% respectively.

### Investing Behavior: Roth vs non-Roth Accounts

The Roth PCRA account holder balance was much lower than the non-Roth PCRA: \$66,315 vs \$267,609. Gen X once again had the most Roth Accounts as a percentage of accounts in their respective generations, and they were very similar to Baby Boomers in non-Roth accounts. Those with Roth accounts also had lower trade volumes- 3.8 vs. 6.5.

While non-Roth account holders' equity holdings were the standard holdings across all accounts such as Apple, Amazon and Berkshire Hathaway, the Roth PCRA accounts continued to hold Glenview Offshore equity at the top followed by Amazon and Apple.

### Investing Behavior: Advised vs. non-Advised Accounts

Baby Boomers had the largest PCRA account balances and the most advised accounts at 44%, and Gen X was not far behind at 43.2%, while only 9.2% of the Millennials chose to use an advisor. The average participant balance for advised accounts was up to \$436,593 from \$402,866 last quarter, while non-advised accounts were at \$227,334, almost half of advised accounts. Those with advised accounts also had more average trades-10.3 total vs. 5.6 for non-advised accounts. Overall, the trading volume remained very similar to last quarter and to last year.

Those participants who used advisors, displayed a more diversified asset allocation mix and had a lower concentration of assets in particular securities, with Apple being the top one for everyone; advised participants only had 6.1% of their equity assets with Apple, while non-advised participants had 9.82%. Advised participants also had a lower percentage in cash: 5.04% vs. 16.7% for non-advised, showing a good balance among all the advised investments.

As for ETF holdings, advised participants again had more balance among all the holdings, not having more than 3.6% of any one ETF, with the Vanguard Total Stock Market ETF being the top one. Advisors preferred DFA as a top fund family and the DFA US Core Equity Institutional fund as a top holding, with a 19.87% mutual fund asset allocation. Non-advised participants had Schwab S&P 500 Index as the top mutual fund holding and 17.15% of the mutual fund asset allocation went to the Vanguard fund family, followed by Schwab.

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